

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SSO-00 NSCE-00 SS-20 NSC-10 PM-07

L-03 H-03 PRS-01 INRE-00 CIAE-00 INR-10 NSAE-00

RSC-01 DODE-00 CIEP-02 COME-00 EB-11 FRB-02 TRSE-00

OMB-01 EURE-00 DRC-01 /112 W
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O 201346Z DEC 73 ZFF-5
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 8914
INFO USMISSION GENEVA IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L LISBON 4651

GENEVA FOR THE SECRETARY'S PARTY

PARIS FOR THE SECRETARY'S PARTY

PASS EXPORT IMPORT BANK FOR VICE CHAIRMAN SAUER

PASS COMMERCE FOR BIC/OEC/MEPD

PASS WHITE HOUSE CIEP - MR. FLANIGAN

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A.) OCON, PO

SUBJECT: IMPLEMENTATION OF AZORES BASE AGREEMENT: EXPORT
IMPORT BANK FINANCING FOR PETROSUL REFINERY AT
SINES, PORTUGAL.

REF : MADRID 7524 (SECTO 205); LISBON 3464

1. WITH REFERENCE TO THE SECRETARY'S CONVERSATION WITH
PORTUGUESE FONMIN PATRICIO ON DECEMBER 18 REGARDING EXPORT
IMPORT BANK FINANCING FOR PETROSUL REFINERY AT SINES, THE
EXPORT IMPORT BANK ISSUED A PRELIMINARY COMMITMENT ON JUNE 19,
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1973 TO ASSIST IN EXPORT FINANCING ESTIMATED AT \$117.8

MILLION. ACCORDING TO INFORMATION AVAILABLE TO EMBASSY, THIS PRELIMINARY COMMITMENT IS ACCEPTABLE TO PETROSUL ON ALL COUNTS EXCEPT RPT EXCEPT QUESTION OF GUARANTEE FOR EX IM DIRECT CREDIT IN AN AMOUNT UP TO \$53,010,000. THIS IS PROVISION TO WHICH FONMIN PATRICIO REFERRED. PARAGRAPH G. OF EX IM PRELIMINARY COMMITMENT STATES THAT GUARANTEE REQUIREMENT WILL BE WAIVED IF PETROSUL CAN PRESENT EVIDENCE TO SATISFY EX IM BANK THAT FIRM'S FINANCIAL RESOURCES OFFER REASONABLE ASSURANCE OF REPAYMENT OF EX IM CREDIT AND ALL CREDITS GUARANTEED BY EX IM, PLUS INTEREST THEREON. OTHERWISE, UNCONDITIONAL GUARANTEE BY GUARANTOR ACCEPTABLE TO EX IM WILL BE REQUIRED.

2. IN ORDER TO MAKE PROCUREMENT PLANS, PETROSUL HAS SOUGHT ASSURANCES FROM EX IM BANK THAT GUARANTEE REQUIREMENT WOULD BE WAIVED. PETROSUL FINANCIAL DIRECTOR PRESENTED REVISED CASH FLOW PROJECTIONS TO EX IM IN A LETTER DATED AUGUST 18, 1973, WITH A FOLLOW-UP LETTER DATED SEPTEMBER 19, 1973. THUS FAR, EX IM HAS NOT WAIVED GUARANTEE.

3. PETROSUL POINTS OUT THAT IN ADDITION TO CASH FLOW PROJECTIONS, EX IM BANK SHOULD CONSIDER FOLLOWING FACTS:

(A) GOP OWNS 34 PERCENT OF PETROSUL; (B) CUF, MOST POWERFUL INDUSTRIAL GROUP IN PORTUGAL AND ONE OF LARGEST IN EUROPE, AND SONAP, ONE OF TWO PORTUGUESE NATIONAL PETROLEUM COMPANIES, OWN 51 PERCENT; (C) ONCE IN OPERATION, PETROSUL IS GUARANTEED 60 PERCENT OF DOMESTIC MARKET; AND (D) PROCESS DESIGN AND OFFSITE DESIGN WERE MADE BY UOP AND LUMMUS, RESPECTIVELY, TWO HIGHLY RESPECTED U.S. ENGINEERING FIRMS. FINALLY, THE SINES PORT AND INDUSTRIAL PROJECT, IN WHICH PETROSUL WILL PLAY A MAJOR ROLE, IS THE MOST IMPORTANT INFRASTRUCTURE PROJECT GOP HAS BEFORE IT. PORTUGUESE GOVERNMENT CANNOT AFFORD TO LET REFINERY FAIL.

4. COMMENT: AS WE POINTED OUT IN LISBON 3464, SEPTEMBER 20, 1973, THIS EMBASSY BELIEVES THAT STRENGTH OF PETROSUL OWNERS AND MARKET CONDITIONS PROVIDED BY GOP MAKE THIS PROJECT VIABLE. WE HAVE BEEN TOLD ON A CONFIDENTIAL BASIS THAT THE EX IM - CHASE MANHATTAN BANK PACKAGE (WITH THE GUARANTEE CONFIDENTIAL

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FOR EX IM DIRECT FINANCING PORTION WAIVED) IS AS GOOD OR SLIGHTLY BETTER THAN BRITISH AND FRENCH PROPOSALS. IF EX IM GUARANTEE IS REQUIRED, HOWEVER, EUROPEAN FINANCING IS MORE FAVORABLE.

5. EMBASSY RECOMMENDATION: TO DEMONSTRATE OUR WILLINGNESS TO COMPLY WITH SPIRIT OF AZORES AGREEMENT AND TO PROMOTE U.S. EXPORTS FOR THIS PROJECT, WE STRONGLY RECOMMEND THAT

EX IM BANK WAIVE ITS REQUIREMENT FOR GUARANTEE ON DIRECT
FINANCING PORTION. SINCE BIDS ON PETROSUL ARE IN AND
PROCUREMENT DECISIONS ARE NOW BEING MADE, WE SUGGEST A
DECISION BY EX IM BANK ON AN URGENT BASIS AND REQUEST THAT
EMBASSY LISBON BE INFORMED IMMEDIATELY OF ANY RESOLUTION
OF THIS ISSUE.
POST

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LISBON04651
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731213/aaaaajqj.tel
Line Count: 122
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: MADRID 7524 (SECTO 205); LISBON 3464
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 25 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25-Sep-2001 by rowellE0>; APPROVED <29-Nov-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMPLEMENTATION OF AZORES BASE AGREEMENT: EXPORT IMPORT BANK FINANCING FOR PETROSUL REFINERY AT
TAGS: OVIP, OCON, PO, (KISSINGER, HENRY A)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005